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¶1. (SBU) Summary: The RTG agreed October 14 to a series of measures aimed at helping offset the impact of the global financial crisis and shoring up economic growth. The plan calls for expanding of tax exemptions for long-term personal investments; accelerating budget disbursements and increased investments in megaprojects; the setting up of government "matching funds" to partner stock market investments with private sector entities; boosting government-to-government cooperation through ASEAN; increasing dollars in supply of dollars in the FX market; encouraging commercial lending, and export and tourism activities. While the plan could help shore up the Thai economy if fully implemented, much of the plan remains short on detail and would take months to enact. Financial industry leaders also point out that some measures, namely the setting up of "matching funds," have been tried and failed in the past, could increase risk for private firms, market volatility, and crowd out private funds. End Summary.

¶2. (SBU) Comment: Just announced this week, these new economic measures have yet to have an appreciable impact. The SET remains volatile and concern about a global economic slowdown pervade the financial community. The plan appears to be the handiwork of DPM Olarn and thus may not last long if, as many predict, the current administration falls amid continuing political instability. If fully enacted, the plan could help shore up growth in the Thai economy at the margin. End Comment.

¶3. (U) On Monday October 13, Prime Minister Somchai chaired his government's first Economic Ministerial Committee, which agreed to enact measures to help offset the impact of the global financial crisis. On October 14, the RTG cabinet approved the measures so that implementation can go forward. Deputy Prime Minister Olarn Chaipravat (a member of the Ministerial Committee) stated publicly that if fully implemented, the measures will inject $35 billion into Thailand's economy during the FY 2009. The RTG expects the measure to help boost the country's economic growth to at least 5.1 percent (yoy) in 2008 and 4.0 percent (yoy) in 2009. The RTG's reported plans are organized into six general areas.

The Thai Governments Plans

¶4. (U) Capital Markets: The RTG will expand the tax exemption for personal investment in long-term equities and retirement funds from the current exemption of $14,700 to $20,590 annually. Deputy Minister for Finance Pradit Phataraprasit revealed that the new tax

exemption will cost the government $26.5 million annually. In addition, the Stock Exchange of Thailand (SET) plans to set up two "matching funds" to buy shares in the stock market: a $294 million matching fund in partnership with financial institutions and a $59 million fund with major listed companies. The goal of the funds: to shore up share values in the stock market. The SET would commit to investing in stocks along side private institutions, at a yet to be determined ratio. Private companies would manage the funds, although it is still unclear whether which entity (the SET, fund managers, or private firms) would determine in which stocks to invest.

¶5. (SBU) Liquidity: To ensure that liquidity levels will be adequate for all entrepreneurs (industries and SMEs), the RTG will encourage commercial banks to extend loans by at least 5 percent in 2009 (an additional $11.8 billion) and encourage Specialized Financial Institutions or SFIs (such as the government housing and savings banks) to increase loans by another $1.47 billion. The Bank of Thailand (BOT) will also increase the supply of U.S. dollars in the foreign-exchange market. (Note: a BOT official told Econoff there are signs of a shortage of dollars in the market, due to capital outflows from both the stock and bond markets. End Note.)

¶6. (U) Export and Tourism: By the end of 2008, the government will attempt to increase revenues from both exports and tourism sectors by at least 5 percent ($8.8 billion for exports and $1.76 billion for tourism). The government will focus on expanding export markets in nations that have not yet been directly affected by the financial crisis (e.g., the Middle East, Australia, Africa, and Latin America).

¶7. (U) Domestic Economic Stimulus: The RTG will accelerate budget disbursements with a target of $5.3 billion during the first half of this fiscal year, starting October 2008. It will also encourage Thais to travel (and spend) domestically. (Note: the FY2009 planned

budget expenditure is $54 billion. End Note.)

¶8. (U) Investment: The RTG will accelerate mega-project investments and increase extra budget expenditures on those projects by another $2.9 billion from an initial $7.4 billion. Out of the new expansion, $1.76 billion will be for mass transit in Bangkok, $294 million for national railways, and $882 million for energy projects.

¶9. (U) Asian Financial Community: The RTG plans to take the opportunity to boost cooperation between ASEAN and six other economies (China, Japan, South Korea, India, Russia and Australia) when Thailand hosts the ASEAN Summit in December.

Reaction/Reality

¶10. (SBU) While steps like the accelerated disbursement of state budgets could provide a relatively quick boost to the Thai economy, others will require planning (and time) before becoming operational. As an example, the RTG has yet to announce detail on how it will go about encouraging loans from commercial banks or SFIs or attempting to increase export and tourism revenue. It did not provide details on its plans for the ASEAN Summit, nor on what basis the SET will match investment funds from financial institutions and major companies (e.g., a one to one basis, a one to two basis, etc.). In order to flesh out these and other details, the RTG will likely need several months.

¶11. (SBU) Some aspects of the RTG plan have been met with skepticism. Regarding the SET matching funds, the Chairman of a Thai investment bank noted prior governments in the early 1990's initiated similar plans, but they did not succeed. The head of an asset management company explained that private institutions at the time remained wary of risky equity investments in a falling market, and opposed any perceived government pressure to take on additional risk. As such, the funds were underutilized. He also noted the matching funds also could be problematic in that, by investing in equities, banks may increase their risk exposure, a questionable move in times of volatile markets. Regardless, as the SET's total

market capitalization is approximately $104 billion dollars, the existence of relatively small SET funds (valued at less than $400 million) may not restore calm to the markets. The presence of government funds may also crowd out the development of the private mutual fund industry and could create more volatility. An official in the legal office of the BOT noted the Financial Institutions Business Act limits the amount that financial institutions can invest in equity (e.g., can invest no more than 20 percent of its total capital funds in equity in general, and no more than 5 percent of its funds in any one company; can hold no more than 10 percent of a single company's public shares). While the BOT could relax such restrictions, it is unclear whether the BOT plans to do so.